DOCKET FILE COPY ORIGINAL

ORIGINAL

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

GENERAL COUNSEL
ROBERT D. VANDIVER
(850) 413-6248

Public Service Commission

RECEIVED

SEP - 4 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

September 4, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Re: CC Docket No. 98-81 - 1998 Biennial Regulatory Review--Review of Accounting and Cost Allocation Requirements

Dear Ms. Salas:

Enclosed are an original and 9 copies of the Florida Public Service Commission's Reply Comments in the above-referenced docket.

Sincerely,

Cynthia B. Miller

Cynthia B. Miller
Senior Attorney

CBM:jmb
Enclosure
cc: Brad Ramsay, NARUC
International Transcription Services, Inc.
Parties of Record

No. of Copies rec'd 0+14
List ABCDE

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the matter of:	)	
	)	
1998 Biennial Regulatory Review-- Review of Accounting and Cost Allocation Requirements	)))	CC DOCKET 98-81
	)	

REPLY COMMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION

On June 17, 1998, the Federal Communications Commission (FCC) released its Notice of Proposed Rule Making (NPRM) on the 1998 Biennial Regulatory Review--Review of Accounting and Cost Allocation Requirements in Docket No. 98-81 and on United States Telephone Association Petition for Rulemaking in ASD File No. 98-64. The FCC extended the reply comment due date to September 4, 1998. The Florida Public Service Commission (FPSC) submits the following reply comments that oppose the proposal by some parties to move toward reliance on GAAP only, recognize the need to retain the Class A system of accounts for the largest LECs, and suggest caution in delineating the threshold for determining which carriers are required to follow Class A system of accounts.

The Class A system of accounts for the largest LECs (and therefore Part 32) needs to remain for now. The FPSC strongly opposes, at this time, the proposal by some parties to move toward GAAP requirements only for Class A and Class B carriers.

The FPSC agrees with the FCC that there are several statutory obligations, in particular section 254(k), which prohibit cross subsidy by not allowing telecommunications carriers to use services that are not competitive to subsidize services that are subject to competition. The additional detail of Class A accounting may be needed to allow the scrutiny of accounts necessary to ensure that cross subsidy is not occurring.

Also, Section 272 requires a Bell Operating Company to obtain and pay for joint Federal/State audits every two years once a BOC meets the requirements of Section 271 and begins providing in-region interLATA services through a separate affiliate. Class A accounting should remain in place while these audits are in process in order for the states to assure themselves that transactions with these affiliates are on the required arm's-length basis.

In the NPRM, the FCC proposes to change the method of classification of the incumbent LECs which currently are either considered, for accounting purposes, Class A or Class B. Currently, "[c]arriers with annual operating revenues above a designated indexed revenue threshold, currently $112 million, are classified as Class A; those with annual operating revenues below the threshold are considered Class B."[1] The FCC proposes that if affiliated incumbent LECs' revenue in the aggregate totals less than $7 billion, then each LEC in that group falls under Class B, even if the annual operating revenue of any individual LEC in that group exceeds $112 million.[2] The proposed change results in Class A accounting applying only "to the Bell Operating Companies and the GTE Operating Companies."[3] Based on annual operating revenues, this would cover about 90% of the LEC market nationwide. [4]

The FPSC is concerned about the potential impact of the proposed criteria for determining which LEC uses the Class A versus Class B system of accounts. For example, in Florida, the suggested benchmark of $7 billion in aggregate revenues of affiliated incumbent LECs would result in Sprint-Florida, representing over 18% of the access lines in Florida, being allowed to use the Class B system of accounts. The FPSC believes that a LEC having over 18% of the access lines in a

---

1 *Public Notice*. FCC 98-108, Docket No. 98-81 (rel. June 17, 1998), paragraph 3.

2 Ibid., paragraph 4.

3 Ibid., paragraph 4.

4 Ibid.

state has a significant presence. The FPSC has no independent authority to prescribe a system of accounts for price-regulated LECs. If the FCC is concerned about the possibility of cost allocation between competitive activities and non-competitive activities, then the FCC should consider whether the level of detail required in Class A is necessary for the FCC implementing that type of review.

Thus, we urge the FCC to consider whether it and the states will be able to do a sufficient job under the Telecommunications Act if the criteria are altered as proposed. If the FCC expects the states to review embedded cost on cross-subsidy issues, for example, then Class A accounting may be necessary for the companies with a significant presence in Florida.

The FCC proposes that the mid-sized LECs be allowed to maintain their accounts, for CAM purposes, at the Class B level. The FCC also proposes that the audit requirement for the CAM be reduced for these carriers, which would reduce the costs to these carriers in complying with the audit requirement. The FPSC agrees with the FCC's proposal that the mid-size incumbent LECs be allowed to maintain their accounts at the Class B level and that the audit requirement be relaxed for these carriers. However, as discussed earlier, the FCC may want to consider whether the criteria for determining Class A and Class B accounting should require companies with a significant presence within a state, such as Sprint-Florida, to use Class A accounting for CAM purposes. For the Class A carriers, the FCC plans to maintain the current rules for an annual audit of the CAM. This is due to the fact that "there is a greater risk of harm to consumers and competitors from cross-subsidization among these carriers."[5] The FPSC also agrees with the FCC's conclusion "that these audits are required to monitor the large incumbent LECs as competition begins to develop in local telephony markets."[6]

In conclusion, the FPSC strongly opposes the movement by some companies to reliance only upon GAAP principles.

In addition, the FPSC raises concerns for the FCC's consideration as to changing the Class A accounting criteria. The FPSC would recommend that the FCC consider whether the Telecommunications Act may be appropriately implemented when a company with a significant presence within a state would no

---

[5] Ibid., paragraph 12.

[6] Ibid.

longer fall within the more rigorous Class A accounting requirements.

Respectfully submitted,

CYNTHIA B. MILLER
SENIOR ATTORNEY

Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
(850) 413-6082

DATED: September 4, 1998

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the matter of:	)	
	)	
1998 Biennial Regulatory Review--	)	CC DOCKET 98-81
Review of Accounting and Cost	)	
Allocation Requirements	)	
	)	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Reply Comments of the Florida Public Service Commission were furnished this 4th day of September, 1998, to the parties on the attached service list.

CYNTHIA B. MILLER
SENIOR ATTORNEY

Warren Firschein
Accounting Safeguards Division
Common Carrier Bureau
Federal Communications Commission
2000 L Street - Suite 200
Washington, DC 20554

Larry Sarjeant
Linda Kent
Keith Townsend
United States Telephone Association
1401 H Street - Suite 600
Washington, DC 20005-2136

James D. Ellis
Patricia Diaz Dennis
Robert M. Lynch
Steve Strickland
SBC Communications, Inc.
175 E. Houston - Room 4-D-10
San Antonio, Texas 78205

John M. Goodman
Bell Atlantic Telephone Companies
1300 Eye Street, NW
Washington, DC 20005

Michael S. Pabian
Ameritech Telephone Companies
Room 4H82
2000 West Ameritech Center Drive
Hoffman Estates, Illinois 60196-1025

Jay C. Keithley
Sprint Local Telephone Companies
1850 M Street, NW - 11th Floor
Washington, DC 20036-5807

Sandra K. Williams
Sprint Local Telephone Companies
Post Office Box 11315
Kansas City, Missouri 64112

Leander R. Valent
Counsel for Ameritech
9525 West Bryn Mawr - Suite 600
Rosemont, Illinois 60018

Edward Shakin
Attorney for Bell Atlantic Telephone Companies
8th Floor
Arlington, Virginia 22201

John F. Raposa
GTE Service Corporation
Post Office Box 1452092
Irving, Texas 75015-2092

Andre J. Lachance
GTE Service Corporation
1850 M Street, NW
Washington, DC 20036

James T. Hannon
U S West, Inc.
1020 19th Street, NW
Suite 700
Washington, DC 20036

Daniel L. Poole, of Counsel
U S West, Inc.
1020 19th Street, NW
Suite 700
Washington, DC 20036

Kathryn Z. Zachem
J. Wade Lindsay
U S West, Inc.
Wilkinson, Barker, Knauer & Quinn LLP
2330 N Street, NW
Washington, DC 20037

James U. Troup
Robert H. Jackson
Arter & Hadden LLP
Attorneys for Lexcom Telephone Co.
1801 K Street, NW - Suite 400K
Washington, DC 20006-1301

David W. Zesiger
Executive Director
Independent Telephone &
Telecommunications Alliance
1300 Connecticut Avenue, NW
Suite 600
Washington, DC 20036

M. Robert Sutherland
Stephen L. Earnest
1155 Peachtree Street, NE
Suite 1700
Atlanta, Georgia 30309-3610

Arthur Andersen LLP
1225 17th Street
Suite 3100
Denver, Colorado 80202-5531

Robert M. Lynch
Durward D. Dupre
Darryl W. Howard
Johnathan W. Royston
Attorneys for Southwestern Bell,
Pacific Bell and Nevada Bell
One Bell Plaza, Room 3022
Dallas, Texas 75202

David L. Meier, Director
Regulatory Affairs
Cincinnati Bell
Post Office Box 2301
Cincinnati, Ohio 45201-2301

ssociation of Tech Act Projects
West Old State Capitol Plaza
uite 100
pringfield, Illinois 62701

Gregg C. Sayre
General Attorney
Frontier Corporation
180 South Clinton Avenue
Rochester, New York 14646-0700

avid E. Screven
ssistant Counsel
PaPUC Law Bureau
ost Office Box 3265
arrisburg, Pennsylvania 17105-3265